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21 FEB 1984

MEMORANDUM FOR: Deputy Director of Personnel for Special Programs

Deputy Director or Personnel for Policy, Analysis, and Evaluations

STAT FROM: [redacted]
Liaison Division
Office of Legislative Liaison

SUBJECT: Director Office of Personnel Mangagement Testimony to House Post Office and Civil Service Committee on 23 Februray 1984

1. Attached for your information and use is a copy of the letter sent from the House Post Office and Civil Service Committee, over Chairman Ford's (D,MI) signature, to the Director of the Office of Personnel Management (OPM) requesting his testimony at an upcoming hear on supplemental retirement. It is this letter request that prompted the draft OPM testimony that you reviewed last Friday.

2. The only reason that this letter is useful is that it completes the loop between the House Committee and the OPM and ensures that we have complete privity into at least the public record on the subject of supplemental retirement, at least for now.

STAT [redacted]

Attachment:
As stated

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House of Representatives
Committee on Post Office and Civil Service
Washington, D.C. 20515

TELEPHONE (202) 225-4054

January 25, 1984

Honorable Donald J. Devine
Director
Office of Personnel Management
1900 E Street, N.W.
Washington, D. C. 20415

Dear Mr. Devine:

On February 23, 1984, the Committee on Post Office and Civil Service will commence a series of hearings related to the development of a new retirement system for Federal employees who are subject to Social Security. The purpose of the hearings is to elicit the views of interested parties on the key issues involved in the design and objectives of the new retirement system. We would appreciate your appearance before the Committee on February 23 to discuss these important issues.

While the Committee intends to consider all of the many complex issues relevant to the development of a new retirement system, we are particularly interested at this time in having your views on the following matters:

Comparability Analysis

In designing the new Federal retirement system, the Committee will, of course, refer to the practice in other sectors of the economy. The Committee would particularly be interested in your view on the range of compensation elements to be considered in such analysis as well as the survey base. Should consideration be limited strictly to retirement systems or expanded to include other fringe benefits and cash compensation so that retirement can be placed within the perspective of total compensation?

General Design

In developing a new retirement system the overall design of the retirement system is important. The two major types of retirement systems are the defined contribution and the defined

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benefit systems. Many employers in the private sector today use a combination of these systems to develop their total retirement programs. Within each major type there are designs that ignore the effect of Social Security, thus accepting the full Social Security income distribution, and plans which offset the effect of Social Security through various mechanisms, thus reducing the Social Security tilt. Which type of plan should the Federal Government use and within each type how far should the Government go in offsetting the Social Security benefits either explicitly or implicitly?

Eligibility and Inflation Protection

In addition to the question of overall design there is the question of the adequacy and equity of individual benefits. Prior studies show that the current Federal retirement system replaces about the same level of income as the retirement systems of large employers after a full career at age 62 or 65. The Federal retirement system costs more than the typical private sector system because it permits retirement at earlier ages; benefits are fully indexed after retirement; and the rate of disability among Federal employees is greater than in the private sector. Studies also show, however, that these costs are more than offset by shortfalls in other benefits such as health and life insurance. In developing a new retirement system, should the inflation protection provisions of that system be structured to reduce costs in order to offer new or improved benefits under that system? For example, could indexing of benefits be capped or otherwise limited in exchange for an employer-sponsored thrift plan?

Financing

The current funding is less stringent than the funding imposed on the retirement systems in private sector by Federal law and regulation. However, the funding is more advanced than the Social Security system because the Government does build up reserves for employees while they are working. In the area of funding, do you believe that the current funding level is appropriate or should it be strengthened or reduced? Should the retirement system for new employees be financed through the same fund, and same financing provisions, as the current system? Should the new plan be non-contributory? If the current and new systems are separated what steps, if any, should be taken to strengthen the current system financing to avoid depletion of the fund in the future?

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Coverage

Should participation in the new Federal retirement system be limited to those employees who are subject to Social Security or should provisions be included to encourage pre-1984 appointees to opt into the new system? What kinds of incentives could be provided as encouragement?

The hearing will begin at 10:00 a.m. in room 311 of the Cannon House Office Building. In accordance with Committee rules, we would appreciate your providing 100 copies of your written testimony at least 48 hours in advance of the hearing.

We look forward to your appearance.

With kind regards,

Sincerely,

WILLIAM D. FORD
Chairman

WDF:rlp

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